

## INSTITUTE OF LOCAL TAXES IN LITHUANIA: ITS STATUS AND POSSIBILITIES OF DEVELOPMENT

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**Abstract.** The article deals with the possibility of developing fiscal decentralization and its main part—the institute of local taxes in Lithuania. The concept of local taxes and its place in state is considered. General principles of tax distribution on the state and local government levels are discussed. Experience of modern democratic states and interwar Lithuania in the sphere of local taxes is presented. The budget's structure of Lithuanian municipalities, from the point of view of local taxes, is analysed in the period of the last few years. The comparative analysis budget structures of Vilnius and other capitals of the Baltic countries are performed. The means proposed will enable us to develop the institute of local taxes up to the European level, i.e. the taxes allocated to the self-government to legalize as a local tax, rendering an opportunity to set its tariffs within the statutory limits and some new local taxes, for example, the taxes on the property of legal persons and that of luxury of natural persons, could be legalized.

**JEL classification:** G280, D310.

**Keywords:** fiscal decentralization, local taxes, budget of local government, state subsidies, own incomes of local budget, distributive taxes.

**Reikšminiai žodžiai:** fiskalinė decentralizacija, vietiniai mokesčiai, savivaldybių biudžetai, valstybės subsidijos, nuosavos savivaldybių biudžetų pajamos, paskirstomieji mokesčiai.

### 1. Introduction

Local taxes are one of the major conditions of fiscal decentralization, as well as extension of independence of self-government. The significance of independent activities in self-government to modern democracy is also emphasized by the European Charter of Local Self-government (1985), stating that “the institutions of self-government are the basis of any democratic system.” In the countries of the EU or any other countries of western democracy the institution of local taxes is developed enough. In Lithuania this problem is still waiting to be solved. The problems, connected with local taxes, were

considered by both foreign, and the Lithuanian scientists, basically in the fiscal decentralization aspect. Between foreign and Lithuanian authors, worth mentioning are: Bird 1998; Musgrave 1989; Oates 1993; Rosen 1998; Stiglitz 2000; Astrauskas, Strizkaite 2003; Davulis 2006, 2007, 2009; Rimas 2005; Staciokas 2003; Staciokas, Rimas 2004, etc. The general problems of fiscal decentralization and state local finances are considered in: Daflon 2002; Fiscal federalism and state local finance 1998; Baltuskiene 2004; Buskeviciute 2008; Raipa, A., Backūnaitė, R. 2004; Rimas 1999.

In this article, the situation in the sphere of local taxes in Lithuania and foreign experience and interwar Lithuania in this sphere are discussed. The article offers a solution to improve this situation, with regard to further integration of Lithuania with the European Union.

The purpose is to define the Lithuanian situation in the sphere of local taxes, in comparison with the countries of the European Union and other western countries.

The problems are to investigate the theoretical bases of local taxes, concrete taxes in the western countries, and the situation in interwar and present-day Lithuania.

The methods of research are logical and comparative analysis of the scientific literature and the legal certificates, the analysis and generalization of the statistical data.

## **2. The principles of fiscal decentralization and tax distribution between the levels of state governing**

The major function of the state public sector is to provide public goods to the inhabitants of the country both at the state level and that of local governing. However, to realize these activities, adequate resources are necessary on both levels. The main principle of distribution of financial resources at different levels of governing is expressed in the rule of fiscal decentralization. Thus, based on the concept of fiscal decentralization, which justifies the separation of the central and local government, we should build such a structure of the public finance in which each level of government would have sufficient resources of income to fulfil the functions entrusted to it. This financial structure includes allocation of tax sources both to the central and local level of government. The taxes assigned to local levels of government are treated as local taxes. This principle corresponds to the European Charter of Local Self-government (1985) in which it is underlined that financial resources for governing should be proportional to the obligations established by the Constitution and laws. The economic basis of such decentralization is an increase in efficiency of the public economic sector by means of the optimum distribution of economic functions in the public sector of economy. Actually, a centralized provision of the standard public goods, without disregarding specificity and variety of needs of public groups in different regions of the country, causes its inadequacy to social needs. Therefore decentralization of the public sector helps increase economic efficiency by establishing better conditions for providing public goods, which correspond to the needs of consumers.

The distribution of taxes between the central and local government levels is based on the fact that delegation of the most part of rights to the central government is inefficient, because fiscal independence and responsibility of the local government is limited. On the other hand, delegation of too extensive autonomy to local authorities can also be unacceptable from the point of view of macroeconomic stability and effective resource allocation. These are the main principles on the basis of which taxes are assigned to the state level of governing and to the level of local governing. Income from the latter taxes falls to the local budgets. Taxes, the basis of which is equally distributed in the territory of the country, are most suitable as being local taxes. Otherwise, taxes are assigned to the state level (for example, the taxes of natural resources). It is important that the size of local taxes correspond to that benefit which is received by the inhabitants of the district in the form of public goods. It is considered that such conformity induces the tax payers to pay taxes voluntarily and correctly. Taxes, the basis of which is mobile, are assigned to the state level, because their ranking to the local level can cause the so-called Tiebout effect. The taxes, the basis of which can be transferred to the territory of other jurisdiction, are not assigned to local taxes. One more important issue connected with local taxes, is their administration. The most reasonable principle would be as follows: if local taxes were easily administered, then an institution authorized by the local government could collect the taxes.

On the contrary it is more reasonable that an institution controlled by the central government collected taxes because it has greater administrative forces to collect taxes than the local government and, consequently, tax collection costs more cheaply. That is the effect of scale economy in the administration of taxes. So, the taxes, of which the base is easily established, equally distributed and steady, cannot be transferred to another administrative territory; they are easily administered and more beneficial are best for local taxes.

Usually the taxes, giving the greatest income, are assigned to the state taxes, because the central government does not wish to lose financial weights. The European Charter of Local Self-Government states that "the local government receives a part of financial resources from the local taxes and charges, the size of which is set by them on the basis of the status." Despite this statement, as usual, the central government does not grant the local government full autonomy to the form of their incomes due to the mentioned objective and subjective reasons. The order of taxation of local taxes is established by the central governments. The freedom of local governments is confined by the opportunity to choose the tax rates within limits set by laws only.

Analysis of the national budget has shown (Davulis, 2006), that the degree of fiscal centralization is much higher in Lithuania than in the western countries of the modern economy. Such a result is no surprise, because the traditions of self-government in the western countries have been created for decades, and so they have a wide autonomy in the sphere of economy. Lithuania, in this sense, lags behind western countries. However, after its integration into the European Union, it is necessary to develop the independence of institutions of self-government.

### 3. Local taxes in contemporary democratic states and interwar Lithuania

The institution of local taxes is well developed in foreign countries. Local taxes are legalized there. Though the local authorities have some power in setting the size of local taxes and their basis, however, in the majority of countries with a modern economy, the central government limits the power of local authorities in this sphere. Note, that among all kinds of taxes, the local taxes are growing most rapidly. In the structure of local budgets of foreign countries, local taxes make up quite a large part, sometimes reaching almost half the income at the budget or more (Staciokas, 2003). In different countries there can be a different structure of local taxes. In some countries one local tax is established, in others, some local taxes are combined. In case of self-government where the public sector is more developed, some local taxes are usually introduced. In self-government with a less developed public sector, where the level of responsibility is minimal, it suffices one kind of local taxes. In order to determine which system of local taxes suits this or that local government better, it is necessary to take into account many factors: capability of local authorities to administer local taxes, the volume of providing public services financed by local taxes, and even the conventional culture of tax payment.

In foreign countries we can distinguish three basic kinds of local taxes providing the greatest part of incomes in budgets of the local government: a profit tax, a property tax and a tax on economic activities. In different countries these taxes have different significance. The profit tax is rather enough widespread as one of the major financial sources for local authorities. This tax dominates, for example, over the structure of local taxes in the Scandinavian countries. There, income related to those taxes make up from 40 per cent (Norway) to 60 per cent (Sweden) of the total amount of all financial resources. On the other hand, in the countries such as France, Ireland, the United Kingdom, Holland profit taxes are attributed to the central government. In the Anglo-Saxon countries including Australia, the USA, Holland and others, the property taxes dominate in the structure of local taxes. Income of local budgets of these taxes ranges from 5 per cent (Holland) up to 20 per cent (Germany) of the volume of all revenues. The tax on economic activities dominates in the structure of local taxes of Austria, France, and USA.

Analysis of the structure of local taxes of some countries confirms the statements mentioned above. In Canada the local authorities are entitled to use only one local tax, the property tax, the basis of which consists of the real estate. The minimum tax tariff is 0.5–1 per cent of the property value, but for some kinds of activities local government may establish much higher tariffs (for example, for manufacturing alcohol—140 per cent of the value of real estate). The tax is not applied for some kinds of real estate (educational institutions, churches, public hospitals, etc.) Though the local governments have the right to set the amount of the property tax, they are obliged to adhere to the requirements established by the federal government.

In the structure of local taxes of Northern Europe countries (Sweden, Norway, Finland and Denmark) only one local tax dominates, for example, in Sweden—a profit

tax. Local taxes are collected by the central government, which allocates them to local governments. The tax system of Germany is widely developed. Therefore revenues of local government budgets are obtained from different sources. The most important taxes are tax on economic activities, the income tax of natural persons and the property tax. The tax on dogs, which can be large enough, is specific, and it goes to local budgets.

In England only one tax falls to the local budgets—the property taxes, whose tariffs in different areas differ depending on the requirements of financial resources. Apart from the above tax, local authorities have the right to collect other taxes as well. In Italy the basic local tax is the profit tax which is charged and its size is set by the central government. Inheritance and donation property taxes are also paid to the local budgets. Tax revenues in local budgets reach about 24 per cent.

The most important local tax, generating the greatest income to the budget of local government in Spain, is the property tax. Apart from it, taxes on economic activities and on mechanical means of transport are paid as well. There are obligatory local taxes. There are other local taxes, so-called freely chosen taxes. The size of taxes on economic activities is set by the local government within the limits established by the state. The amount of taxes on mechanical means of transport and their base is set by the state, depending on the type of the means of transport and power of the engine. The tax system of France is controlled centrally. Here the clearly separated taxes are collected in the state and local budgets. The taxes on professional activities, as well as the profit and the property taxes dominate in the local budgets. The tax system in Japan is original. Local taxes are higher, but budgets of the local government are formed only of their own means, except for poorer local governments that receive additional revenues. The most important local taxes include the property taxes, the taxes on income of inhabitants and the urban planning of municipality taxes.

The analysis of local taxes in foreign countries (Davulis, 2009) made has shown that there is no local tax that would be preferred in all countries. Which local tax (or taxes) would be the most suitable for any country also depends on the economic situation, the power system and traditions. Quite weighty arguments can be for the property tax as the basic local tax because it meets the requirements of a good tax, for example, its base is easily determined and rather stable. On the other hand, the profit tax can be taken into account as well. Both the profit tax and that of economic activities have good properties from the fiscal point of view. Both taxes are paid not only by the local residents, but also by the arriving people. The taxes are flexible and they can be easily administered.

In the framework of the government of interwar Lithuania, local governments had a clearly defined place and their role in the solution of local significance problems was very important. The self-government managed different spheres of a public and economic life specified by laws—education and culture, healthcare services, management of the municipal economy, and others.

In interwar Lithuania, the institutions of central government established sources of income to the budgets of the local government. Income of the local governments consisted of rather a small part of the state taxes, other minor taxes, and the different

charges (Rimas, 2005). The law on local government taxes, which was valid with some amendments and supplements throughout the interwar time in Lithuania, determined the sources of income as well as the common principles of taxation in the territory controlled by the local government. The larger part of local budgets was formed of the tax income and charges. The tax income consisted of the extra pays to the state taxes which, in line with laws, were included to the local budgets and of the independently collected taxes. The majority of the local taxes in inter-war Lithuania were not separate taxes of the local government, but a supplement to the other state taxes. The state institutions collected part of the local government taxes in the same order as well as the state taxes. Local government organized the collections of all other taxes and charges. However the local government had no uncontrolled liberty in this sphere since the Ministers of Domestic Affairs and Finances had great influence on the tax rate and the order of their charge as well as district administration that set and approbated the maximal tax rate.

As mentioned above, the largest part of the local government incomes was received in the form of fixed percentage of the state taxes. But such a system did not correspond to financial needs of local governments and their economic opportunities. The financial equalization of income was indispensable. The central government solved this problem by giving needed additional disposable subsidies for local budgets (Rimas, 2005).

The review of local government taxes of interwar Lithuania allows us to state that the system of taxes was rather progressive and did not lag behind all taxes systems of the developed countries. Besides, the experience obtained in the interwar years can also be useful in Lithuania at present.

#### **4. The system of the local taxes in present-day Lithuania.**

As has been shown in the modern democratic countries, the institution of local taxes is developed well enough. Local taxes in foreign countries make up a significant part of income in local budgets, and taxes are legalized by the laws. Meanwhile, in the regulation in Lithuania, there is no a clear concept of local taxes. On the other hand, a certain part of tax income is given to local budgets according to regulations and other legal acts binding in the Republic of Lithuania. Taxes aimed at local governments (except the inhabitants' income tax) in some sense can be treated as local, but the right of self-government to influence their amounts is not great. The state tax institutions collect the inhabitants' income tax and distribute it between the state and local budgets in compliance with rules set by laws. The local authorities do not have the possibility to influence this tax. Thus the inhabitants' income tax cannot be treated as a local tax.

The following taxes and payment are connected with local budgets by laws and other legal acts in the Republic of Lithuania:

- the inhabitants' income tax
- the tax on pollution of environment
- the taxes on state natural resources
- the tax on lottery and gambling games

- the tax on income obtained from hunted animals
- the tax on the incomes received from any activity that requires business certificates
- the real estate tax
- the inherited property tax
- the ground tax
- the taxes on sale and lease of the state ground that is not used for agriculture
- the payment for the lease of the state ground and reservoirs of the state water fund
- charges.

The local government can set the tax on the incomes received from activities that require business certificate, the charges, real estate tax, the state land lease tariffs in limits set by laws or decisions of the Government. Lithuanian municipalities have a greater influence on establishing the amount of local charges. Though according to the law on charges, municipal councils have the right to determine eleven types of local charges, the institute of local charges is poorly developed. Incomes from local charges approximately comprise only 1% of all the municipal budget revenue. In accordance with the Law of Charges, the common council of a local government makes their own decision on local charges and approves the rules. By a particular decision, a local government may index the size of charge once a year, in case the annual price index of commodities is larger than 1.1. In all other cases the local government can reduce the tariff of the tax or, in general, to refuse the tax by covering the financial losses by means of the budget. On the other hand, these taxes and payment attributed to local governments make up a small part of income of the local budgets.

A local government has no freedom to impose taxes on the income of inhabitants, on pollution of the environment and on natural resources of the state. These taxes are so-called distributive ones, because incomes from these taxes are divided between the state and local government budgets in proportions set by the laws. In accordance with the law of taxes on natural resources of states, a fixed share (70%) of income obtained from hunted animals and the same share of income obtained from the tax on pollution of the environment are attributed to local budgets. In accordance with the Law of the Tax on Lottery and Gambling, only incomes from small lotteries are attributed to local budgets. All taxes, except the payment for the lease of the state ground, which directly goes to the local budget, are collected by the state tax inspectorates. Territorial state tax inspectorates transfer to municipal budgets all tax revenue attributed to them.

Meanwhile transfer of the shared inhabitants' income tax is more complex. In accordance with the Law on the municipal budgetary revenue estimation methodology, different amounts of distributing the income tax collected from inhabitants are applied in each municipality. Before transferring a certain percentage of inhabitants' income tax to the municipal budget, county tax inspectorates transfer a certain share of this tax to the budget of the Compulsory Health Insurance Fund and to the State Budget in proportions set by Law on the approval of financial indicators of the state budget and municipal budgets of the year concerned. County tax inspectorates then transfer to the

municipal budgets a certain percentage of income tax of residents, which is indicated in the Law on the municipal budgetary revenue estimation methodology.

Municipalities of Vilnius, Kaunas, Klaipėda, and the Mažeikiai region are allocated respectively, 40%, 94%, 86% and 95% of the collected income tax of residents. Other municipalities receive 100% of the tax. In the above-mentioned 4 municipalities, where the revenues received from the income tax of residents for one person are higher than average, the deducted share of the income tax of residents is transferred to the State Treasury.

After signing the Association agreement, Lithuania is committed to observe the recommendation of the Committee of Ministers of the Council of Europe on “The Equalization of Resources of Local Authorities”. It is most important to establish the system of local government financing which would allow us to equalize financial capacities of local government in order to enable them to provide services of the same level, scope and quality. Financial resources transferred to the State Treasury by the municipalities—donors, i.e. municipalities of Vilnius, Kaunas, Klaipėda, and the Mažeikiai region—are used to equalize fiscal recourses of municipalities. Municipalities, which receive lower revenues than average from the income tax of residents for one person, get support through the inhabitants’ income tax which is in the State Treasury as state subsidies. Thus the local governments do not have the possibilities to influence income tax of inhabitants, because this tax can be treated as state subsidies of a special kind.

## **5. The analysis of budget structure and assessment of the financial independence of Lithuanian municipalities.**

The main part of financial resources of local authorities is counted up in their budgets. Legal acts set the following kinds of budget receipts for local authorities:

- tax revenue comprised of taxes assigned to local authorities and a part of distributive taxes set by law,
- non-tax revenue received from the property of a local authority, local charges, fines, and other non-tax sources,
- subsidies and grants of the state budget.

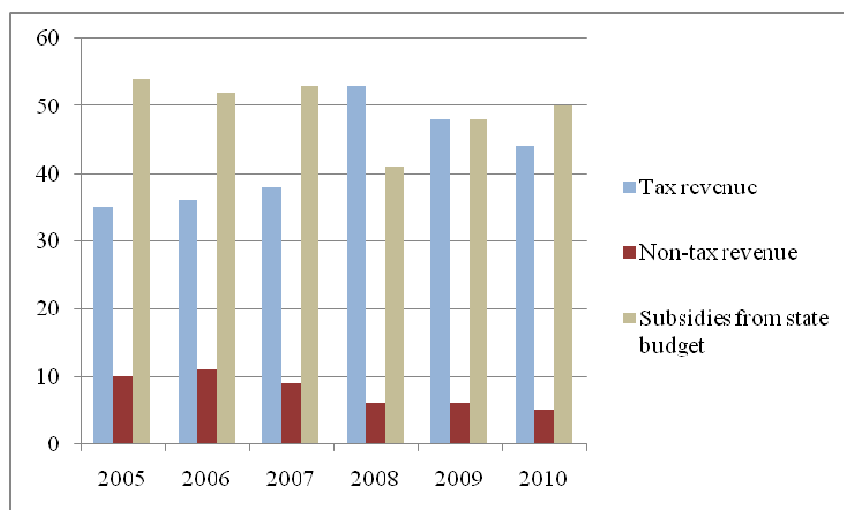
The first two kinds of income with the exception of distributive taxes can be relatively called as the own income of local authorities. The ratio between the own income of local authority and state subsidies characterizes the independence degree of the local authority. Contrary to foreign countries where the own resources completely depend on the decisions made by the local government, Lithuanian local authorities have limited possibilities to control these kinds of resources. Thus, the resources of Lithuanian local authorities do not quite correspond to their conception.

State subsidies to local budgets are indispensable so that financial resources of local governments are adequate to the functions assigned to be performed by them. Subsidies are attracted directly and are distributed into common and purposive ones. The order of attracting subsidies is regulated by the law of the Republic of Lithuania on the methodology of municipal budget income estimation. A common subsidy of



the state budget is attracted to local budgets for equalization differences between income and expenditure structures, determined by factors not dependent on local governments. Purposive subsidies to municipal budgets are attracted in order to perform state functions prescribed to them, as well as to realize the programs approved by the Seimas and Government. Amounts of subsidies for local governments are approved by the law on state and municipality budget financial indices of the corresponding budgetary year. Obviously, state subsidies, especially the purposive ones, are related to more rigid obligations of local authorities. So, if the state subsidies increase, the financial independence of local authorities decreases.

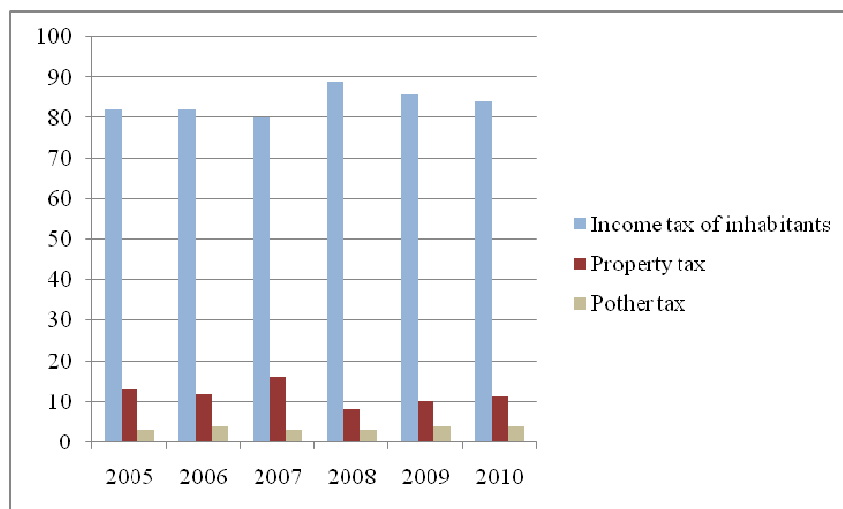
All three kinds of income: tax income, non-tax income, and subsidies in local government budgets have a different comparative weight (Fig. 1). Tax income and subsidies comprise the largest share of municipal budget income. Meanwhile non-tax income, which can be mostly influenced by local governments, comprises but an insignificant share of all local governments income and its significance is not great. As is shown in Fig. 1, the volume of state subsidies for budgets of local authorities comprises more than a half of their total revenues, except for the years 2008 (41%) and 2009 (49%). This fact testifies rather a low level of fiscal decentralization in the country.



**Fig.1.** The dynamic of revenues of Lithuanian municipal budgets (%) in 2005–2010

Source: <http://www.stat.gov.lt>.

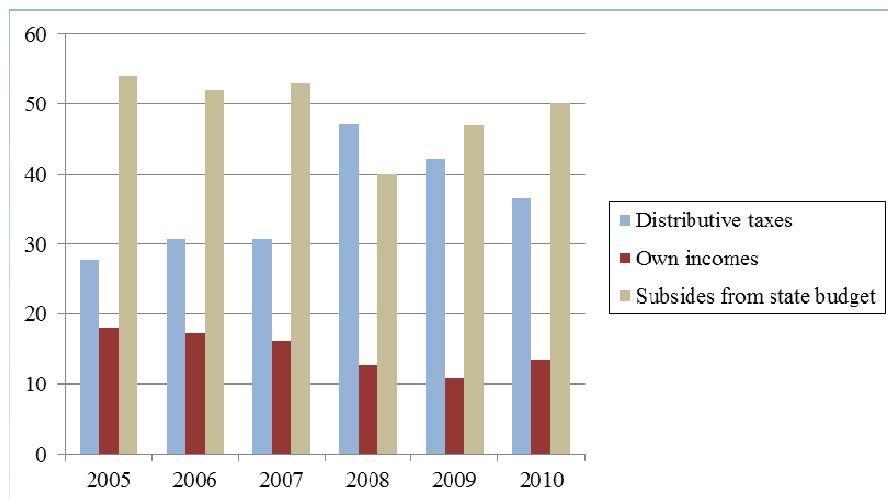
The income tax of inhabitants makes up the largest share (over 80%) of the aggregate tax income of all local government budgets (Fig. 2). The other taxes, i.e. local taxes, do not play an important role in municipal budgets, because these taxes comprise but a small share of municipal budgets. The property taxes comprises largest share of local taxes—in 2007 year about 17 per cent of all tax revenue of Lithuanian municipal budgets. In the year 2008, property tax income in municipal budgets considerably decreased, but later property tax income increased insignificantly.



**Fig. 2.** Tax revenues in Lithuanian municipal budgets (%) in 2005–2010

Source: <http://www.stat.gov.lt>.

The own income (without distributive taxes) in municipal budgets characterizes the financial independence of local government. The share of own income in all revenues of municipal budgets can be used as indicator of financial independence of local government. The analysis shows that financial independence of local government in Lithuania is low (Fig. 3).



**Fig. 3.** Distributive Taxes, State Subsidies and Own Income in Municipal Budgets (%) in 2005–2010

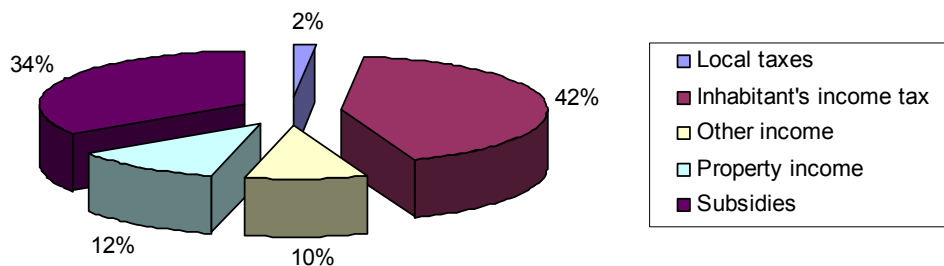
Source: <http://www.stat.gov.lt>.

On the other hand, though municipalities cannot influence the distributive taxes and common state subsidies, municipalities can spend this income at discretion. If we attribute distributive taxes and common state subsidies to own income of municipalities, the situation changes radically. Both these indicators could be used as a measure of the financial independence of local government. We must note that indicators of the financial independence of local government and ones of fiscal decentralization that defined as share of expenses of local budgets in National budget or in GDP though are in relations but not the same.

## 6. The comparative analysis budget structures of Vilnius and other capitals of Baltic countries.

The budget of the Vilnius municipality is the largest of all the budgets of municipalities in Lithuania, however, in terms of financial independence the situation in this municipality is analogous to other Lithuanian municipalities. Let us analyse the budget structure of the Vilnius municipality and compare it with that of other Baltic countries municipalities—Riga and Tallinn, in terms of fiscal decentralization and local taxes. The statistical data of Vilnius, Riga and Tallinn municipalities are used for the analysis. The degree of financial independence of municipalities is shown by the volume of subsidies from the state budget. The high level of grants in the total income structure means a relatively less financial independence of local governments, because state budget grants are associated with concrete obligations.

The analysis shows, that both subsidies of state budget (34%) and inhabitants' income tax (42%) make up a considerable share of the Vilnius municipality budget revenues. Meanwhile, the non-tax revenue, which can be influenced by the municipality, as well as local taxes (i.e., taxes attributed by laws to local governments) make up a very small share in the total budget revenues. This fact indicates that financial independence of the Vilnius municipality is rather limited. The budget structure of Vilnius city in 2010 is represented in Fig. 4 (in percentages).



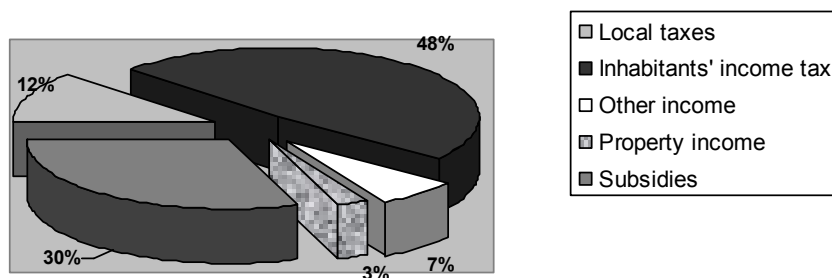
**Fig. 4.** Budget revenue structure of the Vilnius municipality in 2010

Source: <http://www.vilnius.lt/newvilniusweb/index.php/233/?itemID=1098>

We see that subsidies and inhabitants' income tax that cannot be influenced by the municipality make up 76% of all income of budget. Only 24% of budget revenues can be

influenced by the municipality to a larger or lesser extent. The main taxes, attributed to local governments by laws that can be treated as local, included real estate, ground and inherited property taxes as well as the one on state natural resources and environment pollution. The share of all property taxes (real estate, ground, inheritance) in the Vilnius budget 2010 made up 12% of the total budget revenues. Thus the share of all rest local taxes in Vilnius budget in 2010 comprised only 2% of the total budget revenue.

As shows Fig. 5, the income structure of the Vilnius municipality insignificantly differs before and after the economic crisis.

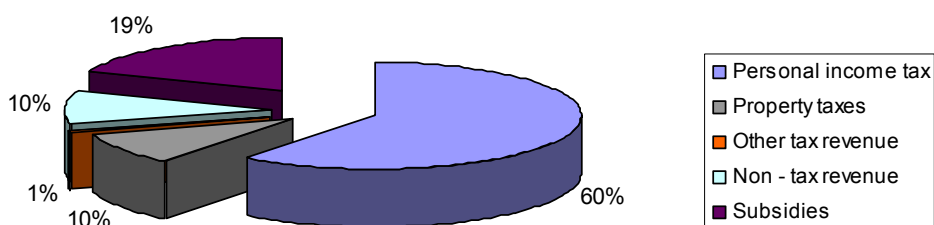


**Fig. 5.** Budget revenue structure of the Vilnius municipality in 2007

Source: <http://www.vilnius.lt/newvilniusweb/index.php/52/?itemID=29>

Similar situation is observed by comparing Vilnius and Riga municipality budgets. The following financial resources comprise budget revenues of Riga municipality:

- personal income tax;
- property tax;
- other tax revenue
- non-tax revenue;
- subsidies.



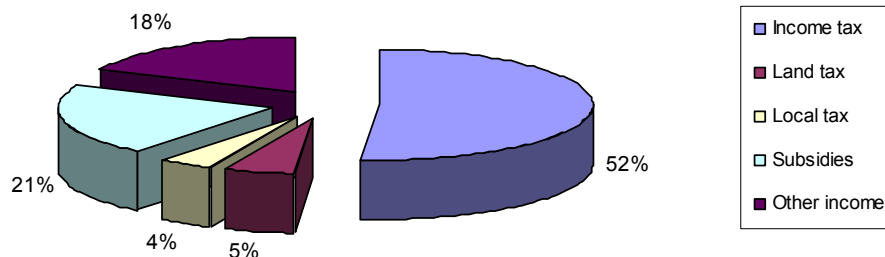
**Fig. 6.** Budget structure of Riga municipality in 2010

Source: [http://www.riga.lv/EN/Channels/Riga\\_Municipality/Annual\\_Report/annual-report-2010.htm](http://www.riga.lv/EN/Channels/Riga_Municipality/Annual_Report/annual-report-2010.htm)

As can be seen in Fig. 6, the personal income tax and property tax made up the largest share—more than 70% of the total budget revenues of Riga in 2010. Subsidies make up a not so small—about 19% of the total budget revenue of Riga. And non-tax revenue makes up a small share of income—only 10 % of the local budget revenues.

Tallinn's city budget is another budget, which will be compared with Vilnius' city budget. The following financial resources comprise budget revenues of Tallinn municipality:

- income tax;
- land tax;
- local tax;
- subsidies;
- other income.



**Fig. 7.** Budget structure of Tallinn municipality in 2010

Source: <http://www.tallinn.ee/est/g3672s55843>

As can be seen in Fig. 7, more than half of Tallinn's budget revenue comes from tax revenues (about 61%), of which the importance of income tax is 52% of the total budget revenue. And only 4% comes from local tax. Subsidies make up a small part, about 21%, of the total budget revenue of Tallinn in 2010.

Consequently, the financial independence of the Riga and Tallinn municipalities are similar as in Vilnius.

## 7. Opportunities to develop the institution of local taxes in Lithuania

As has been shown in the modern democratic countries, the institute of local taxes is developed enough. Local taxes in the budgets of local government of foreign countries make up a significant part of income, and taxes are legalized by law. Meanwhile, in the laws of Lithuania, there is no definition of the concept of local taxes. On the other hand, a certain part of tax income is assigned to local budgets by the laws of the Republic of Lithuania and other legal acts. The taxes assigned to local governments (with the exception of the income of inhabitants tax) can be treated as local in some sense, but the rights of the self-government to influence their amounts is not great.

We think that strengthening of the institution of local taxes needs to be started from the legalization of local taxes, passing the corresponding law. Today there are all the conditions for the property tax to become basic local tax in Lithuania (including the ground). As has been shown by experts, the taxation of the real estate of the inhabitants used only for business had no big influence. Therefore it is necessary to expand

the base of taxes and to change the tariffs. To this end, it is necessary to charge all the property belonging to both to legal and natural persons under the property right. On the other hand, it is necessary to determine the maximum ceiling of non-taxable property in order that inhabitants having the small or average property could avoid the tax. With the growth of the living level, this ceiling could be reduced. The value of property, exceeding the non-taxable amount, is taxed by decision of the council of the local government. As local taxes, it would be expedient to introduce taxes on property of juridical persons and luxury property of inhabitants as local taxes. Realization of these proposals would not refer to the majority of inhabitants, but it would have a positive effect on the income of budgets of local governments. On the other hand, these means would also have a positive side effect—they would help to settle the market of the real estate that today is obviously distorted in Lithuania.

In the light of experience of the countries of modern democracy and inter-war Lithuania, it would be expedient to treat a part of the inhabitants' income tax, transferable to the budgets of local governments as a local tax with the established right of the local government to change the tariffs within the limits set by laws. Since the part of the inhabitants' income tax, transferable to the local government, makes up a significant part of income of their budgets, such local taxes would essentially expand the financial independence of the local governments.

The input of some smaller-sized taxes is possible today. The taxation of vehicles parked in the streets and courtyards, even in the largest cities of Lithuania would be useful in many cases. Such a tax would not only supplement income of budgets, but also would allow us to solve the problem of transport congestion in cities without any expensive projects and would reduce also air pollution and noise. Thus, the living conditions in the cities would improve this way and affect the health of inhabitants positively.

Thus, the present conditions in Lithuania allow us to solve in principle the problem of financial independence of self-governance by consolidation and expansion of the institution of local taxes corresponding to the European level. On the other hand, the degree of such independence should also depend on some specific conditions. Financial independence of the local government is only a condition for increase in the efficiency of the public sector of the economy. The fulfilment of this condition also depends on how effectively the financial resources of the local government are used, which also means that qualification of local government workers and a level of corruption are important as well.

## **8. Conclusions**

The analysis budget structures in Lithuanian municipalities showed that subsidies and inhabitants' income tax, which can be treated as state subsidies of a special kind, comprise the largest share of municipal budget income. Meanwhile, the rest of taxes and non-tax income, which can be mostly influenced by local governments, comprises but an insignificant share of all local government income. Similar situation is in the lev-

el of individual municipalities. The comparative analysis budget structures of Vilnius and other capitals of the Baltic countries show that the situation in Vilnius, Riga and Tallinn municipalities is similar and characterized by low degree of financial independence of municipalities.

Thus, while being integrated into the European Union further, Lithuania should develop the institute of local taxes as one of the major elements of fiscal decentralization. We propose such means to develop the institute of local taxes in Lithuania: legalization of local taxes by means of the corresponding law, legalization of the real estate tax as the main local tax expanding its base and the rights of the local government to set its tariff in greater limits, introduction of the part of the inhabitants' income tax into local budgets as a local tax, authorizing local governments to set its own tariffs within the statutory limits, legalization of new local taxes, for example, the taxes on property of legal persons and on luxury property of natural persons, as well as the tax on the means of transport that would make a useful by-effect, apart from fiscal effect.

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## VIETINIŲ MOKESČIŲ INSTITUTAS LIETUVOJE: JŲ STATUSAS IR PLĖTOJIMO GALIMYBĖS

Gediminas DAVULIS

**Santrauka.** Straipsnyje nagrinėjama galimybė plėtoti fiskalinę decentralizaciją ir jos pagrindinės dalies – vietinių mokesčių – institutą Lietuvoje. Aptariama vietinių mokesčių sąvoka ir jų vieta valstybėje. Pateikiami pagrindiniai mokesčių paskirstymo tarp valstybės ir savivaldybių lygių principai. Aptariama šiuolaikinės demokratijos šalių ir tapukario Lietuvos patirtis vietinių mokesčių srityje. Analizuojama pastarųjų metų Lietuvos savivaldybių biudžetų struktūra vietinių mokesčių aspektu. Pateikiami Vilniaus miesto ir kitų Baltijos šalių sostinių savivaldybių biudžetų struktūrų palyginamosios analizės rezultatai. Atsižvelgiant į tyrimo rezultatus bei Vakarų šalių ir tarpukario Lietuvos patirtį, siūlomos priemonės, kurios leistų išplėtoti vietinių mokesčių institutą iki labiausiai pažengusių Europos šalių lygio, t. y. įteisinti mokesčius, dabar veikiančiais įstatymais priskirtus savivaldybėms, kaip vietinius, numatant galimybę savivaldybėms nustatyti jų tarifus įstatymų nustatytose ribose, įvesti naujus vietinius mokesčius, pvz., juridinių asmenų kilnojamojo turto bei fizinių asmenų prabangaus turto mokesčius.

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